

Message Text

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COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 L-03 H-02 PA-02 PRS-01 AGR-10 /120 W

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R 161801Z MAR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7286

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 04390

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MARCH 15)

REF.: BONN 4301; BONN 4018; BONN 3955 AND BONN 3469

1. FOREIGN EXCHANGE MARKET: FOLLOWING THE FRENCH
DECISION TO LEAVE THE SNAKE, THE DOLLAR WEAKENED AGAINST
THE DEUTSCHEMARK ON MONDAY, MARCH 15, OPENING AT
DM 2.5655, INCREASING TO A HIGH OF DM 2.5775 IN THE
AFTERNOON AND CLOSING AT DM 2.5650. THE FIXING WAS
DM 2.5718. ON TUESDAY, MARCH 16, THE DOLLAR OPENED SOME-
WHAT HIGHER AT DM 2.5700 AND WAS FIXED AT DM 2.5715.

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DURING THE REPORTING WEEK SPOT (FRANKFURT FIXING RATE)

AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:

FORWARD DOLLARS				
(DISCOUNTS IN PCT.P.A.)				
SPOT DOLLARS		ONE-MONTH	THREE-MONTH	
MARCH 8	DM 2.5633	-1.7	-2.1	
9	2.5713	-1.5	-2.0	
10	2.5672	-1.3	-2.0	
11	2.5803	-1.7	-2.1	
12	2.5800	-2.2	-2.2	
15	2.5718	-2.3	-2.3	
16	2.5715	N.A.	N.A.	

2. ON MONDAY, MARCH 15, TRADING ON THE GERMAN FOREIGN EXCHANGE MARKET WAS HECTIC AND NERVOUS. THE DANISH CROWN REMAINED AT ITS LOWER INTERVENTION POINT AND THE BELGIAN FRANC DECLINED TO THAT POINT, RESULTING IN BUNDESBANK INTERVENTION AT THE FIXING IN BOTH CURRENCIES. REPORTEDLY THE BUNDESBANK PURCHASED BELGIAN FRANCS 220 MILLION AND DANISH CROWNS 23 MILLION. DURING THE MORNING OF MARCH 16 BOTH CURRENCIES REMAINED AT THEIR LOWER INTERVENTION LEVELS. ACCORDING TO THE FINANCIAL PRESS, THERE IS FEAR THAT BELGIUM AND DENMARK MIGHT ALSO LEAVE THE SNAKE IN THE EVENT THAT SPECULATION CONCENTRATES ON THEIR CURRENCIES. THE DEUTSCHEMARK ALSO STRENGTHENED AGAINST THE OTHER CURRENCIES, OFFICIALLY FIXED AT THE FRANKFURT FOREIGN EXCHANGE MARKET. ACCORDING TO AN DPA REPORT, THE BUNDESBANK CALCULATED FOR MARCH L5 (AS COMPARED WITH THE END OF 1975) A TRADE-WEIGHTED DM REVALUATION RATE AGAINST ALL CURRENCIES OF THE WORLD OF 5.2 PERCENT AS COMPARED WITH 3.9 PERCENT FOR MARCH 12.

3. GERMAN REACTION ON FRENCH DECISION TO LEAVE THE SNAKE: AS GATHERED FROM THE FINANCIAL PRESS, THE GENERAL REACTION IN GERMANY TO THE FRENCH DECISION TO LEAVE THE SNAKE WAS ONE OF UNDERSTANDING AND REGRET. THERE WAS A WIDESPREAD FEELING THAT THE DECISION WAS A "SMALLER EVIL" THAN A DM REVALUATION. ACCORDING TO PRESS REPORTS, FINANCE MINISTER APEL STATED IN BRUSSELS

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THAT THE SNAKE WILL BE MAINTAINED AND EXPRESSED HOPE THAT FRANCE WOULD RETURN AS SOON AS POSSIBLE. IN HIS VIEW, GERMAN EXPORTS WOULD NOT BE SIGNIFICANTLY AFFECTED BY THE FRENCH DEPARTURE. APEL STATED THAT THE GERMAN GOVERNMENT HAD BEEN PREPARED TO AGREE TO A "LIMITED" DM REVALUATION WITHIN THE FRAMEWORK OF A GENERAL EXCHANGE RATE REALIGNMENT IN THE SNAKE. THE UNWILLINGNESS OF THE OTHER SNAKE MEMBERS TO REALIGN

SNAKE PARITIES, SAID FAZ, LED TO THE FRENCH DECISION TO LEAVE THE SNAKE. THE FAZ ALSO REPORTED THAT FRANCE HAD ASKED FOR A 3 PERCENT DM REVALUATION AND OFFERED A 3 PERCENT FRANC DEVALUATION, BUT THAT APEL WAS WILLING TO AGREE ONLY TO A 2 PERCENT DM REVALUATION.

4. THE ASSOCIATION OF GERMAN BANKS FELT THAT THE DE FACTO FRANC DEVALUATION WOULD HAVE SOME EFFECTS ON GERMAN EXPORTS, BUT THAT THE IMPACT WOULD BE SMALLER

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FM AMEMBASSY BONN

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THAN IN CASE OF A DM REVALUATION SINCE THE LATTER WOULD HAVE BECOME EFFECTIVE AGAINST ALL SNAKE

CURRENCIES. THE ASSOCIATION OF GERMAN WHOLESALE AND FOREIGN TRADE DOES NOT EXPECT THE FRENCH MEASURE TO HAVE ANY SERIOUS EFFECTS ON GERMAN EXPORTS. IN GENERAL, GERMAN FOREIGN TRADERS PREFERRED A FRANC DEVALUATION TO A DM REVALUATION. THE GERMAN CHAMBER OF COMMERCE CONSIDERED THE FRENCH DECISION TO BE A "NECESSARY BUT ALSO COURAGEOUS MOVE" WHICH HAD TO BE TAKEN IN ORDER NOT TO EXPOSE THE SNAKE TO A "USELESS BREAKING TEST". THE GERMAN FARMERS' ASSOCIATION POINTED OUT THAT GERMAN AGRICULTURE WOULD SUFFER INCOME LOSSES FROM THE FRENCH MOVE, UNCLASSIFIED

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AND EXPECTED THE EC COMMISSION TO TAKE MEASURES TO PREVENT THIS.

5. EDITORIALY, THE FAZ VIEWED THE DECISION TO LEAVE THE SNAKE AS BEING PARTICULARLY PAINFUL FOR PARIS SINCE FRANCE WAS THE "BIG FIGHTER" FOR FIXED EXCHANGE RATES AND, BY TAKING THIS "SHEER STUBBORN POSITION" PARALYZING FOR YEARS IMPORTANT INTERNATIONAL MONETARY NEGOTIATIONS. THE HANDELSBLATT COMMENTED THAT THE SMALLER SNAKE WILL, IN ALL PROBABILITY, FUNCTION FAIRLY WELL AS IT PREVIOUSLY DID WHEN FRANCE LEFT THE FIRST TIME IN JANUARY 1974. BUT, QUOTING THE HANDELSBLATT, "THE FRENCH DECISION SHOULD MAKE ONE THING CLEAR: WITHIN THE SNAKE EXCHANGE RATES CANNOT BE MAINTAINED FOREVER. THEY MUST BE CHANGED IF CURRENT ACCOUNT BALANCES DEVELOP DIFFERENTLY. THIS ALSO APPLIES FOR THE DEUTSCHEMARK. IF GERMANY'S TRADE BALANCE DEVELOPS, AS IS INDICATED BY RECENT DATA ON THE INFLOW OF FOREIGN ORDERS, A REVALUATION OF THE DEUTSCHEMARK SHOULD NO LONGER BE A TABOO. OTHERWISE THE SNAKE WILL BURST".

6. MONEY MARKET: DESPITE THE BEGINNING OF THE MAJOR MID-MARCH TAX DATE, THE GERMAN MONEY MARKET EASED WITH CALL MONEY DECLINING BELOW THE 3 1/2 PERCENT REDISCOUNT RATE. THIS EASING APPEARS MAINLY TO REFLECT THE LIQUIDITY EFFECTS OF INTERVENTIONS IN FAVOR OF THE FRENCH FRANC DONE IN DEUTSCHEMARKS DURING THE LAST WEEK BUT MAY ALSO BE DUE TO SOME EXCESSIVE LIQUIDITY PREPARATIONS OF BANKS FOR THE TAX DATE. DURING THE REPORTING WEEK, FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH MONEY THREE-MONTH MONEY

MARCH 8	3.4-3.7	3.65	3.75
9	3.5-3.8	3.75	3.85
10	3.5-3.7	3.75	3.75

11	3.4-3.6	3.70	3.80
12	3.4-3.6	3.60	3.70
15	3.2-3.5	3.60	3.65

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7. BUNDESBANK FOREIGN POSITION: IN THE FIRST WEEK OF MARCH (MARCH 1-7) THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.4 BILLION TO DM 86.1 BILLION. CREDITS TO FOREIGN CENTRAL BANKS INCREASED BY DM 1,286 MILLION DUE TO THE GRANTING OF THE \$500 MILLION BUNDESBANK CREDIT TO ITALY (SEE BONN 3469). HOLDINGS OF LIQUID FOREIGN EXCHANGE DECLINED BY DM 1,508 MILLION MAINLY REFLECTING THE WITHDRAWAL OF THE \$500 MILLION CREDIT BY ITALY. CLAIMS ON THE EUROPEAN FUND FOR MONETARY COOPERATION DECLINED BY DM 171 MILLION, GERMANY'S IMF GOLD TRANCHE POSITION INCREASED BY DM 45 MILLION AND GROSS LIABILITIES BY ABOUT DM 50 MILLION.

8. BANK LIQUIDITY: IN THE FIRST WEEK OF MARCH BANK LIQUIDITY REMAINED UNCHANGED. THE ONLY MAJOR FACTOR INCREASING LIQUIDITY WAS THE USUAL DECLINE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK AT THE BEGINNING OF A MONTH (DM 2.9 BILLION). LIQUIDITY WAS REDUCED BY THE ABOVE-MENTIONED DECLINE IN BUNDESBANK MONETARY RESERVES AND A DM 1.0 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK. OTHER FACTORS REDUCED LIQUIDITY, NET, BY DM 1.5 BILLION.

9. EC CREDIT TO ITALY AND IRELAND: ACCORDING TO REPORTS IN THE GERMAN PRESS, THE EC FINANCE MINISTERS FORMALLY APPROVED ON MARCH 15 THE EC CREDIT TO ITALY AND IRELAND (SEE BONN 3955). FINAL CONTRACTS FOR RAISING OF THE FUNDS FOR THE CREDIT WILL REPORTEDLY BE SIGNED ON MARCH 22. THE FUNDS WILL BE RAISED IN

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FM AMEMBASSY BONN

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INFO AMEMBASSY BERN

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FOUR TRANCHES. A FIRST \$300 MILLION TRANCHE WILL BE OFFERED IN THE FORM OF A PUBLIC LOAN BY AN INTERNATIONAL BANKING GROUP INCLUDING THE DEUTSCHE BANK. THE MATURITY OF THIS LOAN WILL BE 6 YEARS, THE COUPON PRE-SUMABLY 8 1/4 PERCENT. AT THE SAME TIME A BANKING CONSORTIUM LED BY THE DEUTSCHE BANK WILL OFFER THROUGH AN INTERNATIONAL CONSORTIUM A DM 500 MILLION LOAN CARRYING A MATURITY OF 7 YEARS AND A COUPON OF PRE-SUMABLY 7 1/4 PERCENT. A THIRD TRANCHE WILL BE RAISED BY THE PLACEMENT OF MEDIUM-TERM DOLLAR NOTES IN AN AMOUNT OF \$500 MILLION AND A FOURTH TRANCHE AMOUNTING TO \$300 MILLION WILL BE RAISED BY THE EUROPEAN BANKING CORPORATION, A LONDON MERCHANT BANK OF THE UNCLASSIFIED

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EUROPEAN BANKING INTERNATIONAL GROUP. DETAILS ON THE LAST TWO TRANCHES, ACCORDING TO THE GERMAN PRESS, HAVE NOT YET BEEN REPORTED.

10. BOND MARKET: DURING THE LAST FIVE WEEKS, THE YIELD OF OUTSTANDING BONDS DECLINED BY 3/8 - 1/2 PERCENT

FOLLOWING A 1/4 PERCENT DECLINE IN JANUARY. IN VIEW OF THIS FAVORABLE DEVELOPMENT THE CENTRAL CAPITAL MARKET COMMITTEE RECOMMENDED ON MARCH 10 THAT THE COMING FEDERAL LOAN OF ABOUT DM 600 MILLION BE ISSUED IN TWO TRANCHES. IT IS EXPECTED THAT AN 8 YEAR TRANCHE MAY BE OFFERED AT A COUPON OF 7 1/2 PERCENT AND A 5 YEAR TRANCHE AT A COUPON OF 7 PERCENT.

11. FOREIGN DM LOANS: THE DM 70 MILLION LOAN OF THE ADELA (LUXEMBOURG PRIVATE DEVELOPMENT AGENCY FOR LATIN AMERICA -- SEE BONN 3955) WAS OFFERED ON MARCH 10 AT AN ISSUE PRICE OF 99 1/2 (YIELD TO MATURITY 8.1 PERCENT). THE DM 40 MILLION LOAN OF THE SWEDISH COMMUNAL INSTITUTE WAS OFFERED ON MARCH 11 AT AN ISSUE PRICE OF 100 (SEE BONN 3955).

12. ECONOMIC INDICATORS PUBLISHED THIS WEEK: BUILDING PERMITS FOR HOUSING UNITS IN DECEMBER 1975 CAME TO 29,741 --- 5,266 OR 15 PERCENT LESS THAN IN NOVEMBER 1975 AND 765 OR 2.5 PERCENT LESS THAN IN DECEMBER 1974. INSOLVENCIES IN DECEMBER 1975 TOTALLED 718; THIS IS 99 OR 12.1 PERCENT LESS THAN IN NOVEMBER 1975 AND ONLY 2 OR 0.3 PERCENT MORE THAN IN DECEMBER 1974. FIRST OFFICIAL JANUARY RETAIL SALES STATISTICS SHOW GAINS OVER JANUARY 1975 RESULTS BY 9 PERCENT IN CURRENT PRICES AND BY 4 PERCENT IN TERMS OF 1970 PRICES. PRE-LIMINARY ESTIMATES OF THE VALUE OF NEW ORDERS BOOKED BY INDUSTRY IN JANUARY WERE REPORTED IN BONN 4018; MEANWHILE, THE EMBASSY HAS OBTAINED FROM THE MINISTRY THE MORE MEANINGFUL ORDER VOLUME DATA FOR JANUARY WHICH WILL BE REPORTED BY SEPTEL. ACCORDING TO PRELIMINARY DATA JUST RELEASED BY THE FEDERAL STATISTICAL OFFICE, THE COST-OF-LIVING INDEX (1970 EQUALS 100) IN FEBRUARY STOOD AT 139.2, I.E., 0.7 PERCENT ABOVE THE REVISED JANUARY LEVEL OF 138.2. THE YEAR-TO-YEAR RATE OF INCREASE UNCLASSIFIED

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IN LIVING COSTS, WHICH HAD DECLINED SLIGHTLY FROM 5.4 PERCENT IN DECEMBER TO 5.3 PERCENT IN JANUARY, INCREASED AGAIN AND CAME TO 5.5 PERCENT IN FEBRUARY.

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